

CENTRAL INTELLIGENCE AGENCY

REPORT

INFORMATION REPORT

CD NO.

COUNTRY Yugoslavia

DATE DISTR. 7 MAY 51

SUBJECT Progress of the Five-Year Plan

NO. OF PAGES 5 50X1

PLACE
ACQUIREDNO. OF ENCLS.
(LISTED BELOW)

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DATE OF
INFO.SUPPLEMENT TO
REPORT NO.

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1. Opposition of the USSR

- a. In 1945, before the Five-Year Plan ever began, the Yugoslav Government began to doubt whether it could be carried out within the time limit set, because the USSR had criticized the draft plan on the grounds that it paid too much attention to industrialization and too little to the collectivization of agriculture and development of the mining industries.
- b. The Yugoslav Government suspected this criticism to mean that the USSR preferred Yugoslavia to remain an "undeveloped" country which would be forced to export food and raw materials cheaply in exchange for manufactured goods sold at exorbitant prices, and preferred not to supply the capital equipment necessary for a large industrialization program.
- c. These suspicions were allayed when the USSR and her satellite states signed far reaching trade agreements in which they undertook to export large quantities of capital equipment to Yugoslavia on liberal credit and barter terms.
- d. As the months passed and it became increasingly clear that the USSR did not intend to take those agreements seriously, Yugoslav suspicions revived, until, with the Cominform denunciation of Yugoslavia in 1948, they were finally confirmed.
- e. The Cominform denunciation and subsequent decision to break off all economic relations with Yugoslavia struck a very serious blow at the Five-Year Plan and investments plan, disorganized industry and trade, upset production schedules, and forced certain industrial projects to be abandoned altogether.

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Document No. 4

No Change in Class. ☐☐ Declassified

Class. Changed To: TS S G

Auth.: HR 78-2

Date: 090878

50X1-HUM

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CENTRAL INTELLIGENCE AGENCY

- 2 -

50X1

2. The Cominform Blockade

- a. While on the one hand Yugoslavia could not, for economic reasons, proceed with the Plan unless she traded with the West and obtained western loans, on the other hand, she could not, for political reasons, afford to renounce the Plan and allow the Cominform to accuse her of betraying socialism to western capitalism and imperialism.
- b. Yugoslavia decided to steer a middle course, namely that of executing a socialist plan with capitalist help, and, to this end, came to an arrangement with the Western Powers that preserved the Plan, at least in modified form, and in return ranged her agit-prop apparatus and army against the Cominform. The receipt of loans from the West and the revival of trade relations meant a reprieve for the Plan.

3. Failure to Modify the Five-Year Plan

- a. The Plan still aimed at doing too much with too little, with the result that valuable resources were squandered. Modification of the Plan and better planning and coordination would have created a system of stricter priorities whereby Yugoslavia's limited resources would have been effectively concentrated on a smaller number of vital industries instead of spread over a very large range of industries. The Yugoslav Government seemed to realize this at last, because, early in 1950, the Federal Planning Commission ordered all work on non-essential building, local and light industries to be suspended and priority given to the armament, heavy power and mining industries, and road and rail communications.
- b. The Plan, however, still aims at doing too much too quickly. Western loans are proving too small to cover the capital equipment requirements of industry, with the result that Yugoslavia is forced to export more and more food and raw materials in exchange for lathes and precision tools. Only now is the Government beginning to realize that the Plan is too ambitious and that there is a limit to the amount of food a country can export without creating a serious food shortage and discontent among the masses.

4. Necessity for Developing Armament Industry

- a. Cut off from Russian and Czech sources of military equipment, Yugoslavia had to give priority in development to the armament industry over all other industries.
- b. Obviously enough, this created considerable economic friction and confusion. Priorities had to be revised, raw materials and capital equipment redistributed, and technicians and skilled labor redirected.
- c. The Yugoslav Government is still struggling with the problem of finding the right balance between the requirements of the armament industries and the other industries.
- d. Because this balance has not yet been found, production of both the armament industries and the other industries which determine the level of armament production such as coal, steel, et cetera, has fallen well short of Plan targets.

5. Shortage of Technicians and Skilled Workers: The Yugoslav Government is trying to overcome this shortage by importing foreign technicians and encouraging the technical education of the masses.6. Working Class Discontent: The discontent of the masses caused by the high cost of living and the shortage of food and consumer goods is reflected in large-scale absenteeism.7. Excessive Bureaucracy: The execution of the Plan is hampered by an inefficient, top-heavy, bureaucratic administration. Since early 1950, much has been done to try and remedy this. The administration has been

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CENTRAL INTELLIGENCE AGENCY

- 3 -

50X1

decentralized and only direction is now centrally controlled; redundant ministries, general and head directorates have been abolished; factory workers' councils have been set up, and thousands of useless clerical workers have been swept from their desks into the mines and on to the fields. In spite of all this, the Plan is still obstructed by administrative inflexibility

8. The 1950 Drought: Another difficulty which has affected the progress of the Plan is the 1950 drought. The drought forced Yugoslavia to import instead of export food, and thereby caused a loss of the foreign exchange which was needed to buy capital equipment to raise industrial production.

9. The cumulative effect of all these difficulties has been, among other things:

- a. to prevent industry from achieving its production targets within the time limits imposed, and thereby forcing the Government to extend the period of the Plan by one year;
- b. to force the Government to alleviate the food and consumer goods shortages by freeing internal trade and subsidizing the retail sale of consumer goods.

10. Failure of Major Industries to Achieve Targets

- a. Iron and steel industries: According to the Plan, the steel industry should have produced 1,000,000 tons of steel in 1950; in fact it only produced 420,000 tons. The Government blames the poor results on the USSR for not having provided the equipment for the projected Doboj plant and the Bosnia-Herzegovina Metallurgical Combine. That the present figure should have been reached at all is the result of the installation of new blast furnaces at Sisak which have a combined daily production of 350 tons of pig iron. Sisak sends all its pig iron to Zenica for conversion into steel because they have no Siemens-Martin furnaces, and none are likely to be installed for a long time because of the slow progress being made in building the new hydro-electric power stations.
- b. Coal industry: The coal industry should have produced 15,000,000 tons to fulfill the Plan. Actually only 12,500,000 tons were produced. The Government again blamed this failure on the USSR for not having delivered the equipment necessary for the mines. This is partly true, but they should take into account the shortage of skilled miners and mining engineers.
- c. Oil industry According to the Plan, the oil industry should have produced 450,000 tons of crude oil in 1950; in fact it only produced 85,000 tons, an increase of 29,750 tons over the 1949 figure of 55,250 tons. Because of the crude oil shortage, Yugoslavia imported 200,000 tons of gasoline in 1950. The Government blamed a serious shortage of oil boring equipment for this failure. The Government did not tell the public that nine-tenths of the oil boring equipment had been cancelled because it preferred to use its foreign exchange on buying machine tools for the armament industry. Were it not for the shortage of oil boring equipment, oil production would rise sharply because almost everything has been done within the limits of Yugoslavia's own resources to set the stage for large scale production. Geological surveys have almost been completed, industrial railroads have been built across the Donja Lendava, Sumercan and Gojlo oilfields, and local pipelines have been built linking the oilfields with railroad heads.
- d. Hydro-electric power industry: Progress on the construction of the new hydro-electric power stations is slow because of a shortage of skilled labor, engineers and equipment, especially turbo-generators.
- e. Building materials industry: If the building program of the Plan is far behind schedule, the Government cannot throw the blame on circumstances beyond its control, because timber, cement and labor are

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CENTRAL INTELLIGENCE AGENCY

- 4 -

50X1

all available in abundance in Yugoslavia. The production of building materials has risen considerably since 1939. In 1950 Yugoslavia produced 1,300,000 tons of good quality cement as compared with 650,000 tons in 1939. In 1950, 950,000,000 bricks were produced as compared with 600,000,000 in 1939. The blame for the slow progress of the building program must, therefore, be attributed to the over ambitious nature of the program, and the export of considerable quantities of timber and cement to pay for imports of capital equipment.

11. Government Intervention to Improve the Food Situation

- a. During the last quarter of 1950, discontent among the masses assumed considerable proportions. This was caused by:
 - 1) The overall food shortage followed by the drought.
 - 2) The rising cost of living as evidenced in the sharp increase of food prices on the free market.
 - 3) The deflationary policy of the Government as evidenced in widespread dismissals from administration and industry, attempts to freeze wages, and the issue of a national loan under which all workers were forced to give up one month's salary in installments spread over five months.
- b. Faced with a food crisis, and a situation wherein ration cards could not be honored and workers had to pay more for less food, the Government sought and obtained [] aid, and in December, passed three new laws which aimed at freeing trade and alleviating the food shortage as follows:
 - 1) The first law restored to private ownership a number of inns, pastry shops, fruit and vegetable shops which had been nationalized in 1947 and 1948.
 - 2) The second law permitted cooperative and state farms to open their shops in urban centers.
 - 3) The third law forbade the export of food.
- c. As a result of these laws:
 - 1) Goods which had not been seen in years reappeared in the shops.
 - 2) Free market food prices declined because cooperative and state farm shops undercut free market prices by fifty to sixty percent.
 - 3) The Government was able, in December, to distribute a great deal of food, other than just bread and the occasional meat ration, against unused ration cards. In this task the Government was undoubtedly helped by [] food shipments.

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12. Steps taken by the Government to Alleviate the Consumer Goods Shortage

- a. In 1950, "utility" consumer goods, textiles, leather goods, shoes, and household goods were unobtainable on "points". Better quality goods could be obtained in the free market shops but at such high prices that only the rich could afford to purchase them. On 15 January 1951, the Government passed new regulations which provided:
 - 1) That "points" and "bons" retained their value until 31 March 1951.
 - 2) That every "point" was worth a "bon" of 12 dinars.
 - 3) That "points" and "bons" should be distributed to all holders of guaranteed ration cards.

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CENTRAL INTELLIGENCE AGENCY

- 5 -

50X1

- 4) That "bons" and "points" could be used to buy goods in the free shops at 80 percent price discounts. Peasant "bons" holders could get 65 percent discounts.
- b. As a result of this law:
- 1) The consumer goods shortage has been relieved. In Zagreb alone in 1950, there were over five million unredeemed "points" and "bons".
 - 2) The Government has lost a large source of revenue made up from the difference between the cost and retail prices of goods sold in the free shops, less, of course, a small commission to the retailer.
- c. Further, as from 31 March 1951, it is likely that everyone who has guaranteed ration cards, will receive about 250 "bons" worth 3,000 dinars for the remaining nine months of the year. This means, in effect, that every ration holder will be able to buy 15,000 dinars worth of consumer goods on the free market for 3,000 dinars in cash and 3,000 dinars in "bons".
- d. The Government cannot afford to subsidize the purchase of consumer goods without recuperating its loss of revenue in other ways. This has been accomplished by:
- 1) An increase of 100 percent on the price of all state monopoly goods such as matches, cigarettes, salt and gasoline.
 - 2) The issue of a new ten year national loan, aimed at withdrawing 3.8 million dinars from circulation and by forcing all ration card holders to subscribe to this loan by giving up one month's pay. In this way the Government not only reduced the amount of money the workers had for spending on consumer goods, but also went a very long way towards covering the subsidy for the purchase of consumer goods it had given the workers.

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